



# *SCHOOL EMPLOYEES RETIREMENT SYSTEM OF OHIO*

## **BOARD MEETING HIGHLIGHTS**

### **FEBRUARY 2021**

#### **Board Member Reappointed**

Jeffrey T. DeLeone took his oath of office at this month's Board meeting. He was reappointed by the Ohio Treasurer.

This is DeLeone's second term on the SERS Board. His term runs until December 5, 2024.

#### **Global Real Assets Portfolio Review**

On February 1, 2021, Nancy Turner, SERS' assistant director and senior investment manager of Global Real Assets, retired.

While a search is underway to fill the position of senior investment manager of Global Real Assets, in the interim, Michael Browning, investment officer – Global Real Assets, is managing the portfolio.

The role of the global real assets portfolio is to provide stable income from tangible assets, be a partial inflation hedge over the long term, and provide low correlation to equities. Its objective is to provide returns exceeding the NCREIF Property Index and focus more on income producing strategies.

Following the most recent asset allocation review, the allocation target for real assets was increased from 15% of the Total Fund to 17%. An interim target of 16% was set for FY2021, because it will take time to identify and select new real asset investments, and to fully build-out the portfolio.

Staff will focus on adding more exposure to infrastructure, increasing the weight of industrial exposure within real estate, and expanding exposure to income-producing strategies.

As of December 2020, the real asset portfolio had a market value of \$2.42 billion. The total portfolio is comprised of \$1.78 billion in real estate and \$636 million in infrastructure. For calendar year 2020, the portfolio returned 2.75% net of fees, which was 75 basis points above the benchmark. Management fees had been reduced over the last few years due to an increase in infrastructure investments and a reduction in non-core assets.

The COVID-19 pandemic has created both positive and negative effects on the real estate part of the portfolio. As of September 30, 2020, industrial, office, and multi-family investments were producing one year returns above the policy benchmark while retail and hotel assets had returns well below the benchmark. The real estate portion of the portfolio consists of 24.8% office, 31.1% multi-family, 21.0% industrial, 11.3% retail, 1.7% hotel, and 10.1% to other property types.

Geographically, 35.6% of SERS' U.S. real assets holdings are in the West, 36.3% in the East, 20.6% in the South, and 7.5% in the Midwest. The West has been the best performing region over the past one, three, five, and ten-year periods. The South region outperformed the policy benchmark over the ten-year period and slightly trails it in the other periods. The East and Midwest regions have underperformed the policy benchmark for the one, three, five, and ten year periods.

The infrastructure portion of the real assets portfolio has been the best performing strategy. Infrastructure has outperformed the policy benchmark in all periods and registered double-digit returns over the three- and five-year periods. Assets in this portfolio include airports, railways, ports, toll roads, wind/solar, energy facilities, public partnerships, medical facilities, and fiber networks. Transportation is the largest strategy at 58.6%, followed by

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#### RETIREMENT BOARD

HUGH W. GARSIDE, JR.  
*Chair, Employee-Member*

BARBARA M. PHILLIPS  
*Vice-Chair, Employee-Member*

JEFFREY T. DELEONE  
*Appointed Member*

JAMES HALLER  
*Employee-Member*

MATTHEW KING  
*Employee-Member*

CATHERINE P. MOSS  
*Retiree-Member*

JAMES A. ROSSLER, JR.  
*Appointed Member*

FRANK A. WEGLARZ  
*Retiree-Member*

DANIEL L. WILSON  
*Appointed Member*

energy at 27%, and telecommunications at 6.6%. The remaining 7.8% is divided among public/private partnerships, renewable energy, and health care assets.

In FY2021, staff will be evaluating new equity and debt managers, and pursuing co-investment opportunities within the infrastructure portfolio.

### Investments Quarterly Report

Joanna Bewick and David Lindberg of Wilshire Associates provided the Board with an update of current capital market conditions in the U.S. and SERS' FY2021 second quarter (October-December) investment results.

During the quarter, Bewick noted that while GDP and employment continued to improve following the COVID-19 induced recession, both remain at pre-recession levels. Money supply in the U.S. exploded during the quarter as the government authorized COVID relief stimulus packages to shore up the economy. At the same time, interest rates dropped to near zero.

While there were signs that inflation was starting to rise, it was difficult to predict how high it might go in the near future. During the quarter, headline CPI (costs for food and energy) was higher than core CPI (the average costs for all goods and service). This means that consumers felt the inflation increase more in their daily lives.

Finally, Bewick noted two trend reversals in investment returns: small cap stocks outperformed large cap stocks 31% to 13%, and value stocks outperformed growth stocks. Wilshire's forecast for 2021 indicates that non-U.S. equity returns will be strong, fixed income returns will be low as Treasury yields are expected to remain low, and the increase in real asset returns during the quarter could continue in 2021.

This quarter, Lindberg reported that SERS' Total Fund gross-of-fees return of 9.94% ranked 51st in the nation out of more than 100 other U.S. funds. Over the one year, SERS' 12.99% return ranked 38th nationally, its three-year return of 9.49% ranked 23rd, its five-year return of 10.74% ranked 15th, and its 10-year return of 9.37% ranked 10th.

The main drivers of SERS' one-year returns were U.S. equity, non-U.S. equity, private equity, and global fixed income. SERS had a 5.5% overweight in U.S. equities that helped enhance returns, but that is being reduced in 2021 to limit risk in the Total Fund.

### Investment Committee Approves Real Asset Investment

The SERS Staff Investment Committee approved a \$100 million commitment to Carlyle Property Investors Core-Plus, a core plus real estate strategy within the real assets portfolio.

This investment will be funded from cash reserves.

### Total Fund Update

| TOTAL FUND BALANCE              |                 |                  |
|---------------------------------|-----------------|------------------|
| November 30                     | December 31     | Difference       |
| \$15.87 billion                 | \$16.53 billion | ▲ \$ 660 million |
| TOTAL FUND RETURN (net of fees) |                 |                  |
| Fiscal Year                     | Calendar Year   | 3-Year           |
| ▲ 15.87%                        | ▲ 12.41%        | ▲ 8.84%          |
| TOTAL FUND RETURN vs. BENCHMARK |                 |                  |
| Fiscal Year                     | Calendar Year   | 3-Year           |
| ▲ 2.18%                         | ▲ 0.86%         | ▲ 0.58%          |

## Health Care Update

### Dental Services Contract

Christi Pepe, SERS' Health Care Services director, presented recommendations that SERS enter into a new contract with Delta Dental to provide dental benefits and administration to eligible SERS benefit recipients.

The current contract with Delta Dental began January 1, 2018, and terminates December 31, 2021. Enrollee satisfaction with the benefit and Delta Dental has been high.

SERS' staff published a Request for Proposal in November 2020 inviting proposals for the provision of dental benefits to SERS enrollees. SERS received five responses. Delta Dental offered lower-than-current pricing for maintenance of the current benefit package, and demonstrated the highest value when considering service, cost, benefits, and provider access combined. Based on reviews of all proposals, staff believed a contract with Delta Dental will provide the best service and value for SERS' benefit recipients. The Board authorized staff to negotiate a new contract with Delta Dental for a three-year term, beginning January 1, 2022, with two optional one-year extensions.

### Vision Services Contract

Pepe also presented a recommendation that SERS enter into a new contract with Vision Services Plan (VSP) to provide vision benefits and administration to eligible SERS benefit recipients.

The current contract with VSP began January 1, 2018, and terminates December 31, 2021. Enrollee satisfaction with the benefit and VSP has been high, with enrollment increasing each year.

SERS' staff published a Request for Proposal in November 2020 inviting proposals for the provision of vision benefits to SERS enrollees. SERS received four responses. VSP offered lower-than-current pricing and proposed an increase to the frame allowance benefit amount. Based on review of all proposals, staff believed that a contract with VSP will provide the best service and value for SERS' benefit recipients.

The Board authorized staff to negotiate a new contract with VSP for a three-year term, beginning January 1, 2022, with two optional one-year extensions.

### Wraparound Health Reimbursement Arrangements (HRA) and Medicaid Contract

Pepe also presented a recommendation that SERS enter into a new contract with HealthScope Benefits to provide services to retirees.

The current contract with HealthScope benefits began January 1, 2017, and terminates December 31, 2021.

SERS' staff published a Request for Information (RFI) in October 2020 to evaluate whether other vendors provided the set of services required by SERS, especially since administration of the Marketplace Wraparound HRA plan required federal marketplace certified application counselors to evaluate and implement enrollment in federal Marketplace plans and Medicaid. Two respondents replied to SERS' RFI. Based on review of the RFI, one applicant qualified. Staff believed that HealthScope Benefits will best support SERS benefit recipients required to confirm Medicaid eligibility and elected to pursue enrollment in the SERS Marketplace Wraparound HRA.

The Board authorized staff to negotiate with HealthScope Benefits for a three-year term contract extension, beginning January 1, 2022, with two optional one-year extensions.

## **Executive Director's Update**

### **Ohio Retirement Study Council (ORSC) Update**

Although the ORSC did not meet in January, SERS has been filing its statutorily required reports, including the annual ORSC system data request, Iran/Sudan Report, and Health Care Report.

### **Annual Roundtable with Advocacy Groups**

On January 29, SERS held its annual SERS Pension and Health Care Advocacy Group Roundtable virtually using Zoom. Five Board members along with 13 representatives from 10 different advocacy groups attended.

SERS staff discussed the state of the System, as well as key activities it expects to take place in 2021.

### **Healthcare Surcharge Recalculation Outreach Update**

SERS continues its outreach efforts to stakeholders regarding the revised employer Surcharge calculation for FY2020.

### **New Windfall Elimination Provisions (WEP)/Government Pension Offset (GPO) Repeal Bill Reintroduced**

The WEP and GPO are receiving some attention in Congress with a new WEP/GPO repeal bill being reintroduced. SERS is closely monitoring its movement.

### **NCTR/NASRA Winter Meeting**

An annual conference that provides interactive discussions of leading public plan issues facing pension systems around the country, this year's NCTR/NASRA conference will be held virtually online at the end of February. Several staff members are scheduled to attend.

## **Monthly Retirement and Survivor Benefit Transactions**

For February, the SERS Board approved 516 active members for service retirements, and 24 survivor benefits for spouses and/or dependents.

## **March Meeting Dates**

The next regular Board meeting will take place Thursday, March 18 at 8:30 a.m., and a Pension Sustainability session is tentatively scheduled for Friday, March 19 at 8:30 a.m.